



May 20, 2013

To the Honorable Board of Supervisors
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County) for the year ended June 30, 2012, and have issued our report thereon dated December 14, 2012. We did not audit the financial statements of the Community Development Commission (CDC), the Los Angeles County Children and Families First – Proposition 10 Commission (First 5 LA), and the Los Angeles County Employees Retirement Association. Those financial statements were audited by other auditors. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 20, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. During the year ended June 30, 2012, the County adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the County's financial statements were:

- Accrual and disclosure of claims liabilities
- Contractual adjustments and bad debt allowances for patient accounts receivable
- Depreciation estimates for capital assets and infrastructure assets
- Fair value of investments
- Pollution remediation liabilities

Management's estimates were based on the following:

- The liability for workers' compensation and long-term disability claims were based on actuarial valuations. General liability, automobile and medical malpractice liability claims were based on historical loss and other data.
- The liability for other claims was determined by County Counsel and attorney judgment about the ultimate outcome of the claims.
- Estimated contractual adjustments were based on prior cost report adjustments, previous regulatory settlements, and the potential future adjustments based on current laws and regulations.
- Estimated bad debt allowances for patient accounts receivable were based on historical loss levels.
- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the asset. The County uses the straight-line method of depreciation.
- The fair value of investments was based on the quoted market prices and pricing models.
- Estimated pollution remediation liabilities were determined by project managers, based on historical cost information for projects of the same type, size and complexity and measured at their current value.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the County's basic financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of Hospital and Other Program Revenues in Note 13 to the financial statements related to the hospital funding sources.
- The disclosure of extraordinary items in Note 20 to the financial statements related to the extraordinary item of First 5 LA and the dissolution of the Community Development Commission Redevelopment Agency.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial

statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2012.

Management Consultations with Other Independent Accountant

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Macias Gini & O'Connell, LLP

County of Los Angeles
Summary of Uncorrected Misstatements - Government-Wide
June 30, 2012

Description	Statement of Net Assets		Statement of Activities	
	Debit	(Credit)	Debit	(Credit)
<u>Governmental Activities</u>				
1 Workers' Compensation Liabilities Salaries & Employee Benefits <i>To properly record the workers' compensation liabilities as of June 30, 2012 per the updated Workers' Compensation Worksheet dated December 13, 2012</i>	\$ 30,018,199	\$	\$	\$ (30,018,199)
2 Beginning Net Assets S&S Expense Beginning Net Assets Depreciation Expense <i>To correctly record the fixed assets put in service in prior years but recorded in the general ledger in FY 2012</i>	27,547,745			(27,547,745)
		(1,917,264)	1,917,264	
3 Interest Expense Depreciation and Amortization <i>To reclassify the premium amortization recorded under depreciation and amortization to interest expense for ISF- LAC-CAL fund</i>			3,429,000	(3,429,000)
<u>Business-Type Activities</u>				
4 Miscellaneous Revenue Premium on Bonds Issuance <i>To reclassify premiums on issuance of Multi-Cap Project Bond 2010 series from Miscellaneous Revenue to Premium on bonds issuance</i>		(11,746,000)	11,746,000	
5 Workers' Compensation Liabilities Salaries & Employee Benefits <i>To properly record the workers' compensation liabilities as of June 30, 2012 per the updated Workers' Compensation Worksheet dated December 13, 2012</i>	2,322,625			(2,322,625)
	<u>\$ 59,888,569</u>	<u>\$ (13,663,264)</u>	<u>\$ 17,092,264</u>	<u>\$ (63,317,569)</u>

County of Los Angeles
Summary of Uncorrected Misstatements - Fund Based
June 30, 2012

Description	Balance Sheet/ Statement of Net Assets		Statement of Revenues, Expenditures/ Expenses and Changes in Fund Balance/ Fund Net Assets	
	Debit	(Credit)	Debit	(Credit)
<u>Capital Projects Fund - Public Buildings</u>				
1 Debt Proceeds Notes Payable <i>To record the Tax Exempt Commercial Paper as short-term debt based on the criteria as specified under GASB Codification, Section D30</i>	\$	\$ (189,065,000)	\$ 189,065,000	\$
<u>Harbor UCLA Medical Center Fund</u>				
2 Workers' Compensation Liability Salaries and Employee Benefits <i>Reversal entry to adjust the overstatement of outstanding losses</i>	590,491			(590,491)
<u>Olive View UCLA Medical Center Fund</u>				
3 Workers' Compensation Liability Salaries and Employee Benefits <i>Reversal entry to adjust the overstatement of outstanding losses</i>	507,119			(507,119)
<u>LAC+USC UCLA Medical Center Fund</u>				
4 Workers' Compensation Liability Salaries and Employee Benefits <i>Reversal entry to adjust the overstatement of outstanding losses</i>	1,066,396			(1,066,396)
<u>Ranchos Los Amigos National Rehab Center Fund</u>				
5 Workers' Compensation Liability Salaries and Employee Benefits <i>Reversal entry to adjust the overstatement of outstanding losses</i>	158,619			(158,619)
<u>Internal Service Fund - Public Works</u>				
6 Workers' Compensation Liability Salaries and Employee Benefits <i>Reversal entry to adjust the overstatement of outstanding losses</i>	666,185			(666,185)
<u>Special Revenue Fund - Other Public Protection</u>				
7 Assigned Fund Balance Committed Fund Balance <i>To reclassify the other public protection special revenue fund balance established by Board Resolution from assigned to committed</i>	4,331,099	(4,331,099)		
	<u>\$ 7,319,909</u>	<u>\$ (193,396,099)</u>	<u>\$ 189,065,000</u>	<u>\$ (2,988,810)</u>